

Internal Revenue Service, Treasury

§ 1.815-6

make up the following schedule in order to determine the cumulative balance in the policyholders surplus account at the end of the taxable year, computed without diminution by reason of distributions made during the taxable year:

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| (1) Balance in policyholders surplus account as of 1-1-60 | \$48,000 |
| (2) Additions to account: | |
| (a) 50 percent of the amount by which the gain from operations (\$30,000) exceeds the taxable investment income (\$25,000) (1/2 × \$5,000) | \$2,500 |
| (b) The deduction for certain nonparticipating contracts provided by sec. 809(d)(5) (as limited by sec. 809(f)) | 600 |
| (c) The deduction for group contracts provided by sec. 809(d)(6) (as limited by sec. 809(f)) | 400 |
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| | 3,500 |
| (3) Cumulative balance in policyholders account as of 12-31-60 (item (1) plus item (2)) | 51,500 |

Under the provisions of section 815(a), since the amount distributed to shareholders during the taxable year, \$60,000, exceeds the cumulative balance in the shareholders surplus at the end of the taxable year, computed without diminution by reason of distributions during the taxable year, \$36,000, the shareholders surplus account shall first be reduced to zero. The remaining \$24,000 (\$60,000 minus \$36,000) of the distribution shall then be treated as made out of the policyholders surplus account. Thus, since the tax base under section 802(b)(1) and (2) is in excess of \$25,000, the total amount to be subtracted from the policyholders surplus account at the end of the taxable year would be \$50,000 (\$24,000 × 100 ÷ (100 - 52)). Of this amount \$26,000 (\$50,000 minus \$24,000) represents the tax on the portion of the distribution to shareholders which is treated as being out of the policyholders surplus account.

(e) *Special rule for 1959 and 1960.* For a special transitional rule applicable to any increase in tax liability under section 802(b)(3) for the taxable years 1959 and 1960 which is due solely to the operation of section 815(c)(3) and this section, see section 802(a)(3) and § 1.802-5.

[T.D. 6535, 26 FR 543, Jan. 20, 1961, as amended by T.D. 6886, 31 FR 8689, June 23, 1966]

§ 1.815-5 Other accounts defined.

The term *other accounts*, as used in section 815(a)(3) and paragraph (b) of § 1.815-2, means all amounts which are not specifically included in the shareholders surplus account under section 815(b) and paragraph (b) of § 1.815-3, or in the policyholders surplus account

under section 815(c) and paragraph (b) of § 1.815-4. Thus, for example, other accounts includes amounts representing the increase in tax due to the operation of section 802(b)(3) which is not taken into account for the taxable years 1959 and 1960 because of the special transitional rule provided in section 802(a)(3) and § 1.802-5, earnings and profits accumulated prior to January 1, 1958, paid-in surplus, capital, etc. To the extent that a distribution (or any portion thereof) is treated as being made out of other accounts, no tax is imposed on the company with respect to such distribution.

[T.D. 6535, 26 FR 544, Jan. 20, 1961]

§ 1.815-6 Special rules.

(a) *Election to transfer amounts from policyholders surplus account to shareholders surplus account—(1) In general.* Section 815(d)(1) permits a life insurance company to elect, after the close of any taxable year for which it is a life insurance company, to subtract any amount (or any portion thereof) in its policyholders surplus account as of the close of the taxable year. The effect of such election is to subject the company to tax on the amounts elected to be subtracted for the taxable year for which the election applies. The amount so subtracted, less the amount of tax imposed with respect to such amount by reason of section 802(b)(3), shall be added to the shareholders surplus account as of the beginning of the taxable year following the taxable year for which the election applies and no further tax shall be imposed upon the company if the amount elected to be transferred to the shareholders surplus account is subsequently distributed to shareholders.

(2) *Manner and effect of election.* (i) The election provided by section 815(d)(1) and this section shall be made in a statement attached to the life insurance company's income tax return for any taxable year for which the company desires the election to apply. The statement shall include the name and address of the taxpayer, shall be signed by the taxpayer (or his duly authorized representative), and shall be filed not later than the date prescribed by law (including extensions thereof) for filing